MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2021/2022

DAU5024 – AUDITING 2

(All sections/Groups)

26 NOVEMBER 2021
9.00 A.M – 12.00 P.M
(3 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 7 pages with 5 questions.
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Happy Kids Sdn Bhd is a manufacturer of children's apparel. They have been trading for over 15 years and they sell to a wide variety of customers including large and small apparel retailers throughout the country. The company's year-end is 31 May 2021.

The company has a huge manufacturing plant, four large warehouses and a head office. Upon manufacture, the apparels are stored in one of the warehouses until they are delivered to customers. The company does not have an internal audit department.

Sales ordering, delivery of good and invoicing

Each customer has a unique customer account number, and this is used to enter sales orders when they are received in writing from customers. The company hired Jasmine, a sales order clerk who is responsible to process customer order, prepare sales order and process customer payment. The orders are entered by Jasmine in the inventory system and the system automatically checks the availability of the goods. Upon preparing the sales order, Jasmine will send the sales order form to shipping departments to deliver the goods.

Ronan, the shipping clerk in shipping department will prepare documentations for shipping upon receiving a copy of the sales order from the sales department. Ronan will be preparing the delivery order which serves as bill of lading and send them together with the goods shipped.

Ken and his team are responsible to pack goods for customers. Ronan and Ken will check together the shipping documents information and the packed goods before it is laid in the vessel for delivery.

The company provides product catalogue, which contains a price list and is updated twice a year. The accounting system automatically detects any repeated purchases, so loyal customers are entitled with discount. To ease the process of invoicing customers, Ronan is given access to the billing system as he can double-check the invoices and the goods shipped.

Once the good are delivered, a copy of the signed delivery order is sent to the accounts team at the main office. Rita, the accounting clerk, gathers all the sales order that she obtained from the sales department and photocopies them. Next, she matches the sales order details with the delivery order details and raises sales invoice to customers. All the company documents are not prenumbered.

The company manager will call up the internal independence supervisor to verify the processes done in each department. The procedures are conducted on an ad hoc basis to ensure the accuracy of document preparation and reviewing reports for unusual transactions.

Continued…

At the end of the year, Rita, the accounts clerk sends all monthly statements to the customer. The company reconciles the sales ledger control account at the end of next month.

Required

Identifies and explains any deficiencies or weaknesses in the sales system.

(20 marks)

(Note: You may use the table format as presented below to write your answer)

Deficiency / Weaknesses Eg: There is no segregation of duties between _____and _____ _____	**Explanation of the risk (How the weaknesses will impact the company operation ?)**

(Total: 20 marks)

QUESTION 2

Part A

Sam is the audit senior responsible to conduct audit of purchasing cycle for TP-Ink Sdn Bhd. The company manufacture and sells different types of study lamps and export them to global market such as Indonesia, Thailand and Vietnam.

The following activities describe the purchasing activities for the company.

i. The personnel in the warehouse will request to purchase materials upon receiving the notifications on low inventory levels from the warehouse assistant.

ii. All materials purchased are traded in credit terms. The company assigned three reliable staff to record the purchases in account payables records. These staff diligently maintain a journal and subsidiary ledger for the suppliers.

iii. The account's senior executive is given the authority to sign a document before it is issued to the supplier for payment purposes.

Continued…

iv. The company also spared one department to receive all the items purchased. The staff working in this department will ensure that they count and check the quantity and quality of all items ordered.

v. There are staff in the company who are responsible to compare prices from different suppliers before orders are taken place. This procedure is important to ensure that the company purchases high quality goods and is able to receive goods on time as per schedule.

vi. After the finance controller is satisfied that all materials that are ordered are received in quality and quantity as expected, he will prepare a document as a way to control the company payment. The finance controller will use a document sent by suppliers as his main reference.

Required

For each of the above situations, identify the major functions and the documents involved for TP-Ink Sdn Bhd.

(16 marks)

(Note: You may use the table format as presented below to write your answer)

No.	Major Function	Documents involved
i.		
ii.		
iii.		
iv.		
v.		
vi.		

Continued…

Part B

The audit partner of AB Associates, Sally has assigned Earl, the audit senior to conduct several types of substantive tests for financial statement audit at the client's company. Earl has conducted the following audit procedures:

i. Examine ten purchases made at year end and after year end to verify the timing of the purchases occurred.

ii. Comparing the amount of purchases made to suppliers with previous year purchases amount.

iii. Vouching samples of payment vouchers made to suppliers to receiving reports and purchase orders.

iv. Request from the company the listing of account payable and confirm them to total in the general ledger.

Required

For each of the audit procedures above, identity the types of substantive tests conducted by Earl. (4 marks)

(Total: 20 marks)

QUESTION 3

Best Food Sdn Bhd purchases and processes chicken into chicken nuggets and sausages. The newly hired manager, Tim receives an offer to purchase high technology machine to process nuggets and sausages which could lead to effectiveness and efficiency of operations. The machines can produce large batches of production with minimum wastage. The salesperson also informed that the new machine would be able to complete the production faster and with less noise. Tim is interested in considering purchasing the machine. Since the new machine cost RM50,000, it is a high cost that requires the highest level of authority to approve for its request and order. If the company acquire the new machine, Tim plans to sell the old machine to get cash and use it as a down-payment for the new machine. The old machine is expected to be sold at a lower price to another reseller. Tim is in the midst of collecting all information regarding the machine so that he can convince the Chief Financial Officer (CFO) on purchasing the machine.

Required

a) Identify and explain the **TWO (2)** documents that need to be maintained by Tim if the company purchases the machine. (6 marks)

Continued…

b) What are the **THREE (3)** types of transactions that the accountant needs to maintain in the accounting record if the company acquire the new machine and sold the old machine with gain on the sales?

(3 marks)

c) State the journal entry for each of the transactions you have provided in (b).

(8 marks)

d) Assume you are the auditor for Best Food Sdn Bhd. Explain the substantive tests you will conduct to examine the existence of the machine and the sales of the old machine in the company.

(3 marks)

(Total: 20 marks)

Continued…

QUESTION 4

You are auditing the financial statements of OIA Berhad for the financial year ended December 2020. You have been informed by the Chief Financial Officer that the company has issued new share capital in June 2020. Your further discussion reveals that the company engages with the share registrar for proper internal control. You plan to review the minutes of meetings of the board of directors.

Required

a) Explain equity financing and its advantage.

(2 marks)

b) Describe **ONE (1)** similarity of audit procedure and **ONE (1)** difference of audit procedure when you want to examine the **Existence** and **Accuracy** of loan financing and share capital financing.

(4 marks)

c) Identify **FIVE (5)** documents you can obtain during the conduct of auditing share capital at the company. Based on your answer, explain the audit objective and audit procedure you may conduct.

(14 marks)

(Note: You may use the table format as presented below to write your answer)

No.	Document	Audit Objective	Audit Procedure
i.			
ii.			
iii.			
iv.			
v.			

(Total: 20 marks)

Continued…

QUESTION 5

During the pandemic Covid-19 breakout, Shean realized that he has a big opportunity to start his own delivery company "Fast and Furious Delivery Sdn Bhd". He began to hire staff to do the office paperwork and a supervisor for handling the payroll system. Shean understands that he needs to be very careful on the payroll system since he is paying wages to the staff based on an hourly basis. Shean maintains proper documentation in his payroll department to support strong internal control implementation in his company.

Required

a) Explain the risk associated with the payroll cycle documents below if the company did not maintain them appropriately.

i) Payroll master file

ii) Timesheets (4 marks)

Note: You may use the table format as presented below to write your answer)

No.	Document	Risk
i.		
ii.		

b) Explain **FIVE (5)** internal control procedures related to proper authorisation that Shean may implement in the company's payroll system.

(10 marks)

c) Assume you are the auditor appointed to audit payroll system for Fast and Furious Delivery Sdn Bhd. Briefly discuss the test of account balance you may conduct to achieve the following objectives related to the company payroll system.

i) Accuracy

(2 marks)

ii) Cutoff

(2 marks)

iii) Occurrence

(2 marks)

(Total: 20 marks)

End of Paper